INTERNATIONAL MEAT CONSULTATIVE GROUP

Statement Made by the Representative of Australia on 15 November 1976

Before reviewing the current outlook for international trade in beef and also providing information on the Australian situation I consider it may be useful to recall some recent developments which have given rise to concern in Australia since our last meeting.

Among these were the imposition of quotas on beef and veal imports by the United States and Canada. In so far as the United States is concerned the quantity allocated to Australia was not changed from that received under the restraint programme negotiated earlier this year. The position in Canada is, however, somewhat different. The imposition of quotas by Canada represents a severe disruption to Australia's trade with that country. No further shipments to Canada can be made for arrival in 1976 and, indeed, a significant quantity already shipped will have to be bonded on arrival in Canada.

In Japan some dislocation has occurred to the trade following advice that the announcement of the quota for the second half of 1976/77 would be delayed. In addition to this the EEC market, despite reported shortages in the United Kingdom of manufacturing type beef, still remains virtually closed to beef imports.

While these matters are disturbing, on the credit side, our most recent assessment of the situation gives some hope of a strengthening of demand for beef in the main beef consuming countries in 1977.

We recall that at our last meeting, the Australian delegation indicated that a major area of Australian cattle production was suffering from the effects of drought, having had little or no rain for some six months.

In recent weeks the drought situation has been relieved by the fall of heavy rains throughout the worst affected areas.
Perhaps the most important feature of the position in Australia at this time has been the continued increase in slaughterings and production, especially from the drought affected areas. Production of beef and veal for the twelve months ended June 1976 reached a record level of 1,784 thousand tons, 16.3 per cent above the level of a year earlier. For the three-month period ended September 1976, production continued at 7.3 per cent above the level for the same period of 1975. However it is estimated that a decline in average slaughter weights as a result of the drought together with a decline in the current high rate of slaughter will lead to a reduction of about 5 per cent in production of beef and veal for the twelve months ended June 1977 compared with a year earlier. Also it is expected that there will be some decline in cattle numbers. This will follow a decline which has already taken place in the rate of growth of Australian cattle numbers. The rate of growth for the year ended March 1976 was less than 2 per cent, a marked reduction on year earlier growth of 6 per cent.

Sale-yard prices for cattle are at present generally higher than a year earlier and firm on the improved levels recorded late in 1975. After reaching a peak in January and February prices have generally fluctuated around these levels throughout the year and have only recently risen marginally in response to a seasonal shortage in specific types of cattle. Prices for heavy ox at the end of October were around 50 cents per kilogramme (dressed weight) cf. 46.9 cents in mid-February and 44.5 cents in October 1975.

While prices have improved on the low levels of 1975 producers' incomes have continued to be characterized by falling returns due largely to sharply rising costs. Average returns fell by about 40 per cent on beef and beef orientated properties in 1974-75 from the peak levels of 1973-74. It is estimated that returns increased by about 10 per cent in 1975-76, less than the rate of increase in the consumer price index.

Largely due to prices continuing at generally low levels domestic consumption has been maintained at a very high level. The combined effects of lower prices and increased demand have enabled the domestic market to absorb the bulk of increased supplies. In 1975-76 domestic per capita consumption of beef and veal was 67 kilogrammes compared with 63 kilogrammes in 1974-75. In 1973-74 per capita consumption was 44 kilogrammes.

At the same time, there has been some improvement in export levels. Total exports in 1975-76 increased to 549,000 tons compared with 423,000 tons a year earlier. Export returns also increased to A$ 487.8 million compared with A$ 322.8 million a year earlier mainly reflecting higher prices in the United States market earlier this year. There has however been some subsequent decline in these prices. Sales to other markets continue, for the most part, to be
characterized by intense price competition amongst traditional exporters and more recently, increasing quantities of subsidized exports from the EEC. The average unit value of Australian beef exports was US$1,098 per ton in 1975-76, compared with US$1,054 in 1974-75 and US$1,841 in 1973-74.

Outlook for coming six months

In view of the high level of Australian production already being consumed on the domestic market and despite a small anticipated decline in production, any significant improvement in returns to beef producers in 1977 will depend on better prices in export markets.

Australia expects the heavy supply situation which has existed in the world beef market in aggregate over the past two to three years to begin to ease in 1977. There should also be some further recovery in consumer demand. However, the degree to which these developments provide a stimulus to Australian sale-yard prices will depend critically upon the development of conditions leading to improved access to the major markets, the United States, Japan, EEC and Canada. Although the many smaller markets developed in recent years will remain important outlets for Australian beef, they are mostly quite price sensitive and unlikely to import sufficient quantities at higher prices to have a significant upward influence on sale-yard prices in Australia.

In the United States, the critical factors affecting the outlook for beef are likely to be the level of domestic demand for meat, the price of feedgrains and the supplies of pigmeat and poultry. Although the strong economic recovery in the first two quarters of 1976 slackened later in the year, domestic consumption of red meat is estimated to have increased by 5.5 per cent in 1976, with a further expansion expected in 1977. Reduced manufacturing beef supplies are expected to be offset by a significant increase in pork supply, slightly more poultry and about the same fed beef supply.

We have noted a recent easing in the United States market in recent weeks and look forward to hearing from the United States delegation their views on the causes of this decline in price and the likely prospects for imports in 1977.

Beef market developments in Canada should be similar to the United States. The sizeable drop in both total inventory and cow herd will keep calf crops at a lower level than in the 1973-75 period. This, along with a smaller 1976 spring calf crop, points to some cut back in cattle slaughter supplies in 1977 and 1978 and consequently an improvement in demand for imports could be expected. However, in view of the recent import restrictions introduced into the Canadian market, we would be interested to hear from the Canadian delegation their views on the likely magnitude of imports in 1977.
In the EEC, there is expected to be some decline in production to around 5.9 million tons in 1977. As a result of the recent European drought substantial intervention stocks have again been built up to a level currently of around 350,000 tons (c.w.e.). The rate at which there will be a rundown of these stocks when the EEC reverts to more normal levels of imports is likely to be strongly influenced by whether there will be another significant increase in the EEC guide price for live cattle early in 1977. At the beginning of the 1976 marketing year the guide price was increased by 8 per cent. Exporters have waited for more than two years now for the removal of EEC safeguard measures against imports and we sincerely hope that with expected declines in Community production exporters will enjoy significantly improved opportunities to make sales to the EEC during 1977.

In Japan during the last twelve months to August 1976 there has been some build-up in cattle numbers and there could well be some increase in beef and veal production in 1977. However, we would expect that demand would also increase particularly given the recent fall in prices to a level around the middle of the price stabilization band. We would be interested to hear any comments which the Japanese delegation may have on the magnitude of this effect. Our expectation is that for the first half of 1977 the Japanese market would be capable of absorbing imports of around the same magnitude of the present six-monthly quota covering July-December 1976, i.e. 45,000 tons.

In summary, with a levelling off in the downward phase of the cattle cycles in most major producing areas of the world lower levels of production in importing areas should, within the constraints of Government policies on market access, provide prospects for increased exports and better prices in 1977.

I would now like to raise a few particular points.

The first concerns the proposed alterations to the EEC's import régime for beef. Australia would be interested to hear from the EEC on the proposals. No doubt others in the Group would also welcome an opportunity for an exchange of views on the EEC proposals.

In the MTN Meat Sub-Group the EEC had proposed the establishment of a new consultative organization on meat. Australia sees this Group as a more appropriate forum for such a discussion. In this way the MTN can concentrate its efforts on trade liberalization measures. This seems to us entirely consistent and appropriate given the terms of reference for this Group and for the MTN.

We can quite understand that as a result of negotiations within the MTN an organization would emerge on meat. That would be all to the good. Certainly, we would play our part in helping toward the achievement of that objective. But this would not and should not conflict with what this Group does.
On the collection of information we still stand ready to discuss any proposals for collecting additional information which may be helpful to the Group in carrying out its function. It may be that we need to go beyond what is already covered in the questionnaire circulated by the secretariat.

In passing I would mention that I hope Australia's responses to the current questionnaire will meet the criticisms which have, at past meetings, occasionally been levelled at our responses.

Australia had also been criticized for lack of export price information. I feel it essential that members of the Group should understand that the details we provide for sales to the United States and Japan cover approximately 70 per cent of Australia's export sales. Given the arrangement on minimum prices with Canada - such prices are linked to those in the United States - the effective coverage is around 75 per cent of sales and provides a very good indication of the returns to the Australian beef industry from exports. But there is still a part of the trade not covered. I know this is a concern to some and we are looking at which can be done. Mr. Smith will be talking at some length on this.

I would also remind members that in the Chairman's report of the fifth meeting reference was made to a proposal by Australia for short-term market outlook papers to be prepared for future meetings. Australia, on that occasion, proposed this work be done by the secretariat from information provided in response to the questionnaire and from country statements.

We are still of the opinion that such work is a necessary step in the efficient functioning of the Group. We urge members to seriously consider and discuss this proposal at this meeting with a view to a short-term market outlook paper which would concentrate on the January/June period of 1977 for consideration at our next meeting. Our more detailed views on this are to be elaborated separately.

Members of the Group may be interested to know of recent changes to the Australian Meat Board's diversification scheme and to changes recently proposed to the Meat Board's composition, powers and functions.

As regards the first matter the diversification scheme, first introduced in 1968, will terminate this year. It will be replaced by a scheme whereby exporters will be allocated, on 1976 performance, 50 per cent of any restraint or quota figure set by the United States. The remaining 50 per cent will be allocated to exporters in proportion to their performance in all markets excluding the United States and its foreign trade zones, Canada, Japan and Sweden. Allocation of the second 50 per cent will be spread over three periods of four months each. An exporter's entitlement will be determined by his performance in the preceding period. That is, entitlement in period two (March-June 1977) will be based on performance in the period December 1976 to February 1977.
As regards the alterations to the Board's present structure the Minister for Primary Industry put forward proposals in September for the industry's consideration, which involved among other matters, changes in the number of Board members, financing of the Board's operation and alteration to certain of its existing powers and functions. No change is proposed at this time to the Board's present marketing powers.

In conclusion Mr. Chairman I would assure members that the Australian proposals are advanced in a serious and constructive effort to forward our work. We would hope that we will all gain from frank and open discussion on the expectations, particularly of the major importers and exporters, for 1977.